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September 1, 2015

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ORIGINAL

RE: Arizona Public Service Company ("APS") Notice of Filing Independent Monitor's
Certification Letter
Docket No. E-00000V-13-0070

Attached please find APS's Independent Monitor's Certification Letter.

If you have any questions regarding this information, please contact Kerri Carnes at
(602)250-3341.

Sincerely,

Lisa Malagon

LM/sb
Attachment

cc: Tom Broderick
Brian Bozzo
Barbara Keene

Arizona Corporation Commission
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35 Iron Point Circle
Suite 225
Folsom, CA 95630
916.631.3200 phone
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June 30, 2015

VIA E-MAIL

Mr. David Metz
Director, Resource Acquisition
Arizona Public Service
400 N. 5th Street | MS 9674 | Phoenix, AZ 85004
David.Metz@aps.com

Subject: CERTIFICATION OF THE ARIZONA PUBLIC SERVICE ("APS") 2015 PEAKING CAPACITY
SOLICITATION

Dear Mr. Metz:

This letter serves as a certification by Navigant Consulting, Inc. ("Navigant") concerning our review as Independent Monitor ("IM") of the procurement process performed by APS relative to the above mentioned 2015 Peaking Capacity Solicitation (the "Solicitation"). We find that this Solicitation conducted by APS was fair, transparent and unbiased and met all requirements of the applicable Procurement Rules. Capitalized terms not defined herein are defined in our report concerning the Solicitation (the "Report").¹

Under the Solicitation, the Resource Acquisition group at APS (the "RA Group") issued a Request for Proposals ("RFP") to the public for 300 MegaWatts ("MW") of new Peaking Capacity.² The RFP allowed for APS to participate in the Solicitation. APS, as a Respondent and through its Generation Engineering Group ("Gen Group"), did submit several Proposals to build new Peaking Capacity at the existing APS Ocotillo power plant site (the "Ocotillo Proposals").

Rules adopted by the Arizona Corporation Commission (the "Commission") specify requirements for procurement for electric load serving entities such as APS (the "Procurement Rules"). Section R14-2-706 of the Procurement Rules ("Section 706")³ is pertinent to the RFP because it governs the selection of, and outlines the responsibilities of, the IM and the information that APS must submit to the IM.

¹ Independent Monitor Report for the 2015 Peaking Capacity Solicitation, prepared for the Arizona Public Service Company by Navigant, dated June 2015.

² Arizona Public Service Company, 2015 Peaking Capacity Request for Proposals ("RFP"), January 30, 2015.

³ Arizona Corporation Commission, Docket No. RE-00000A-09-0249, Decision No. 71722, Arizona Administrative Code ("A.A.C.") R14-2-706.

Notably, Section 706 requires that APS submit a copy of its self-build proposal to the IM one week prior to the deadline for all Respondents to submit their Proposals. APS must also submit to the IM any benchmark or reference cost that it has developed for use in evaluating bids.

APS retained Navigant to serve as the IM for the Solicitation. APS engaged the IM to ensure that the Solicitation process would be conducted in a fair, transparent, and unbiased manner in accordance with the applicable Procurement Rules.

As a result of our work, we certify to the items listed below.

- APS met the requirements of Section 706 because one week prior to the Proposal submittal deadline for other Respondents, the Ocotillo Proposals were submitted to the IM (through PowerAdvocate) along with the benchmark or reference cost (in this case, the Evaluation Criteria) that was developed for use in evaluating bids.
- The Solicitation Documents are comprehensive and consistent with other documents for peaking power supply that we have performed or observed and are consistent with the applicable Procurement Rules. The RFP sufficiently defines the specific products(s) being solicited, the milestone dates for the Solicitation process and all participation and submittal requirements. The milestone dates, durations, and sequencing of the Solicitation and evaluation processes are reasonable. The type and level of information required for the Proposal Data Forms on PowerAdvocate is reasonable. The PowerAdvocate Q&A is also clear, consistent, and valuable to Interested Parties in further defining the Solicitation. Nothing in the Solicitation Documents created a material advantage or disadvantage for any Interested Party or Respondent.
- APS performed its Proposal evaluation and subsequent selection process in a logical, unbiased, and comprehensive manner consistent with other power supply offer evaluation processes we have performed or observed. The threshold process to identify conforming Proposals, and the screening process to identify the least cost Proposals for further detailed evaluation were performed on a consistent and fair basis. The subsequent detailed evaluation process, including detailed quantitative modeling, and detailed assessment of risk factors, was performed on a consistent and fair basis which created no material advantage or disadvantage for any Respondent.

This letter summarizes our review and conclusions as of the date of the Report. In performance of our review and issuance of the Report, we have not attempted to influence the evaluations performed by APS, nor the discussions between APS and the Interested Parties or Respondents, nor the selection of any Proposals by APS. We have not performed any independent alternate evaluation or selection of Proposals. For our work, we have relied on documents, correspondence, analyses, and other information provided to us by APS. While we believe this information to be reliable, it has not been independently verified for either accuracy or validity, and no assurances are offered with respect thereto. Similarly, we were not a party to phone conversations, meetings or other communications that APS may have had with Interested Parties or Respondents other than the Threads on PowerAdvocate.

This letter and our Report does indeed validate the fairness and transparency of the Solicitation and evaluation processes conducted by APS. It does not represent any endorsement of any Proposal selected by APS, nor any guarantee that any Proposal is valid or will be ultimately delivered. We make

Ms. Loretta Cordova
June 30, 2015
Page 3 of 3

no representations, warranties or opinions concerning the enforceability or legality of the laws, regulations, rules, agreements or other similar documents reviewed as part of our work. We express no recommendation, opinion, or advice as to the wisdom, desirability, or prudence of contracting with any of the Respondents. Navigant and its employees are independent contractors providing professional services to APS and are not officers, employees, or agents of APS.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul D. Maxwell", with a stylized flourish at the end.

Paul D. Maxwell
Director